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Central Intelligence Agency



Washington, D.C. 20505

## DIRECTORATE OF INTELLIGENCE

December 1983

## CENTRAL AMERICAN MONTHLY REPORT #5

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Summary

*Trends in the region during December were mixed. In Nicaragua, heavy fighting continued in the north, while the Sandinista regime relaxed repression in an effort to relieve foreign pressure and suggest its flexibility in international negotiations. Despite such signals, there has been no apparent reduction in materiel support to the guerrillas in El Salvador, where the insurgents inflicted serious setbacks on the Army. Elsewhere in the area, factionalism continued rife in the Guatemalan military, but the Constituent Assembly election scheduled for mid-1984 is on track; cabinet changes in Honduras reflected the Suazo government's desire to reinvigorate economic policy; the appointment of a new foreign minister in Costa Rica probably helped assuage domestic fears that the Monge government*

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*This memorandum was prepared by the Central America Branch, ALA. It was coordinated with the Directorate of Operations. It contains information available as of 9 January 1984. Questions and comments are welcome and should be addressed to Chief, Middle America-Caribbean Division, ALA,*

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was relaxing its tough stance toward Nicaragua; and maneuvering among political parties in Panama intensified as the country moved toward elections in May. The Central American nations also made some progress in the Contadora negotiations; nevertheless, Honduras, Costa Rica, El Salvador, and Guatemala are still concerned that the provisions on democracy and verification in the latest documents are vague. [REDACTED]

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## NICARAGUA

### Military

The trend during December was one of preparation for stepped up attacks, which the insurgents had previously threatened to initiate in early 1984. An anticipated offensive by the Nicaraguan Democratic Force got under way in northern Nicaragua, for example, where heavy fighting continued through the end of the month. [REDACTED]

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[REDACTED] a mobile system used in

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[redacted]

the Warsaw Pact and several other countries, would be a significant new weapon for Nicaragua. [redacted]

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At present, the Sandinistas' best air defense weapon is the shoulder-fired SA-7, which has been in Nicaragua since 1981.

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[redacted]

The post-Grenada war hysteria in Nicaragua has abated somewhat, but [redacted]

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[redacted] They also are deploying armored vehicles and other equipment to strategic locations such as the oil terminal at Puerto Sandino, probably to provide the capability to react quickly against sabotage attacks. [redacted]

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### Political

The Sandinistas released political prisoners and announced separate amnesties for Miskito Indians and other insurgents in early December as part of their continuing effort to ease foreign criticism and to suggest their flexibility in international negotiations. Although they claim that some 300 insurgents have surrendered, neither amnesty is likely to attract many participants. Over 1,200 Miskitos fled to Honduras in late December, underscoring continuing repression in areas along the Atlantic Coast and dealing the Nicaraguan government a major propaganda setback. By refraining from verbally attacking the bishop who accompanied the Indians, however, the regime preserved its nascent dialogue with the Catholic Church and the Church hierarchy responded with reciprocal restraint. [redacted]

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The domestic opposition capitalized on relaxed censorship by publishing criticisms of the Sandinistas, and the editor of La Prensa--the country's only opposition newspaper--says circulation has increased from 50,000 to 60,000. In late December, government critics issued a 12-point plan for democracy and made

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proposals for elections. The Sandinistas are unlikely to adopt most of these. Nevertheless, the proposals will increase international scrutiny of the regime as the opposition had previously presented them to five European governments.

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## EL SALVADOR

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### Military

Fighting continued apace in December as both sides prepared for the March Presidential election. The Army resumed offensive action against insurgent strongholds in northern Morazan and other departments in mid-month, and the guerrillas attacked a brigade headquarters and a key highway bridge at the new year. The Morazan offensive marked the first time since the spring that the Army ventured north of the Torola River in force and was highlighted by the helicopter transport of elements of the crack Airborne battalion to the battlefield. at least 200 guerrillas killed and the capture of several towns that had been in insurgent hands for over a year.

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[REDACTED]

For their part, the insurgents overran the 4th Infantry Brigade headquarters in Chalatenango and destroyed the Cuscatlan bridge in central El Salvador. The destruction of the bridge will impede military mobility, and the attacks--while not altering the battlefield stalemate--nevertheless are embarrassing to the Salvadoran high command, which was clearly caught by surprise. [REDACTED]

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#### Arms Flow

The insurgents have been facing the prospect of reduced support from Nicaragua over the last few months. Guerrilla leaders have been told by the Sandinistas to leave Managua and to expect significant reductions in logistical support. [REDACTED]

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[REDACTED]

A large and sustained reduction in Nicaraguan support would seriously impede insurgent military activities. Although the guerrillas could carry on without external command and control, they would be hard pressed to sustain major military operations in the absence of adequate outside sources of resupply. [REDACTED]

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To date, however, we do not have evidence of a significant diminution of arms and war materiel received by the guerrillas from outside sources. [REDACTED]

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### Political

The government and the armed forces have publicly denounced rightwing extremist groups and exiled at least two military officers suspected of complicity with death squads. The Defense Minister, according to the US Embassy, also wants to appoint a special team of investigators to police abuses within the armed forces, and has arrested one junior officer implicated in the January 1981 murders of two US labor advisors. This newfound resolve is largely predicated on US threats to cut off aid to San Salvador, however, and improvement in the human rights situation will depend heavily on continued US pressure. [redacted]

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Progress was made in agrarian reforms and democratization. The Constituent Assembly promulgated a new Constitution, which both set the stage for the 25 March 1984 presidential election and transformed the Assembly into a legislature that will serve until mid-1985. The Assembly also resurrected the long-dormant Phase II agrarian reform, which now provides for distribution of all private holdings between 600 and 1,200 acres. The nearly four-year-old Phase III program--which has afforded over 40,000 peasant families their own plots--was extended for an additional six months to accommodate new applicants. [redacted]

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The Assembly also underwent important leadership changes, including the election of a more moderate directorate. In addition, extremist Assembly leader Roberto D'Aubuisson--who resigned to run for president--was unsuccessful in his efforts to have his party retain the Assembly Presidency. That position is now held by a member of a more moderate rightist party, which was able to reach an accommodation with the liberal Christian Democrats. The ability of the Christian Democrats to compromise with opposition parties on several important issues recently has strengthened its position in the government and among prospective voters. [redacted]

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### Economic

Total costs of insurgent activity to the Salvadoran economy in 1983 rose to about \$230 million--50 percent more than the average of the preceding four years and 8 percent of annual output, according to US Embassy estimates. Most of the increase reflects greater government spending for the counterinsurgency effort. Nevertheless, the guerrillas inflicted \$120 million in damages--slightly above past totals. Embassy estimates indicate that the insurgents hit farming particularly hard. Damage to

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commerce and industry fell off sharply, however, largely because of improved security in the capital. [REDACTED]

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## **GUATEMALA**

### **Political**

Chief of State Mejia retains the tacit support of most senior commanders, who probably want to avoid another coup that could disrupt progress toward elections and detract from counterinsurgency operations. Nevertheless, Mejia has been unable to build a strong constituency in the armed forces, and his policy decisions remain vulnerable to demands from competing military factions. For example, [REDACTED]

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[REDACTED] charges of corruption leveled at Mejia's personal advisers by junior officers may force the ouster of several senior officers. This issue is unlikely to cause the senior commanders to move against Mejia, but the incident is illustrative of continuing military factionalism that could contribute to the country's political instability. [REDACTED]

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The process leading to constituent assembly elections in July is on track, although the draft electoral law proposed by the government is being criticized by most of the 37 political groups now organizing to contest the elections. The parties want the assembly to have broad legislative powers, including the election of a provisional president. They are also demanding that candidates be permitted to run on a national at-large basis instead of in individual electoral districts. The powerful rightist National Liberation Movement is threatening an electoral boycott unless revisions are made, but Mejia--concerned about returning the government to civilian hands before the military is ready--is unlikely to allow the assembly to name a provisional president. Nevertheless, he may compromise on permitting some at-large candidacies. This would assuage the fears of the traditional parties that Indian leaders and other rural delegates could dominate elections outside of Guatemala City. [REDACTED]

### **Military**

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The military retains the tactical advantage over the 2,000-2,500 insurgent combatants and has returned to aggressive patrolling. [REDACTED]

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Additional arms are being provided to the civilian defense forces, which we believe now number about 500,000. [REDACTED]

The insurgents stepped up urban terrorism and rural attacks in December. They remain particularly formidable in the north, [REDACTED]

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[REDACTED] Although they probably will increase their small-scale actions gradually, we believe they are unlikely to make major military gains any time soon. [REDACTED]

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### Economic

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Guatemala's foreign exchange position is weakening substantially as US aid remains suspended, its border with Honduras is closed to trade, and no progress has been made on compliance with a key IMF target for government revenues. [REDACTED]

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[REDACTED] Guatemala City shut off trade with El Salvador, Costa Rica, and Honduras several weeks ago to pressure its regional trading partners to pay their bills more promptly. Agreement has now been reached with all but Honduras, which annually buys about \$25 million of Guatemalan goods. Negotiations with Tegucigalpa began in early January. Chief of State Mejia continues to resist reversing his decision of last fall to reduce the value-added tax. The IMF's next disbursement of about \$13 million is contingent on Guatemala's meeting revenue targets that can only be achieved by raising this tax or imposing new ones. [REDACTED]

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## **HONDURAS**

### Political

President Suazo accepted the resignations of Economic Minister Ma-Tay and Economic Planning Secretary Flores in an effort to reinvigorate Honduran economic policy. Suazo appointed two political moderates--both former presidents of the Honduran Private Enterprise Council (COHEP)--to the vacant posts. Although the cabinet shuffle was partly designed to placate private sector demands for government action, the appointments rankled members of the country's second, and more conservative,

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[redacted]

business organization, the Association for the Progress of Honduras (APROH). According to the US Embassy, the organization plans to lobby Suazo for the appointment of a super-cabinet level economic overseer in hopes of landing the job for one of its members. [redacted]

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### Military

[redacted] continues to be concerned that insurgent activity may be starting up again in remote parts of the country. Evidence to confirm the reports is lacking so far. Nevertheless, their persistence underscores Honduran sensitivity since the aborted efforts of a small band of guerrillas last summer in Olancho Department. [redacted]

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### Economic

As Honduras' foreign exchange bind tightens, President Suazo is pressing for a speedup in US aid. For example, Tegucigalpa has requested that all US Economic Support Funds allocated through September 1984 be disbursed by March. While official devaluation of the lempira and other reforms would ease the foreign exchange shortage, Suazo is anxious to defer the heightened inflation, import cuts, and political problems that would accompany these adjustments. Instead of drawing further on its slim reserves, the Central Bank is accumulating payment arrearages, Suazo is pressing for increased US and IMF help, and the government has decided to turn a blind eye temporarily to some black market transactions to ease the import crunch. Thus far, Suazo has not used the emergency economic powers law he pushed through the Congress in November. [redacted]

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## **COSTA RICA**

### Political

President Monge named Justice Minister Gutierrez to head the Foreign Ministry. He replaces anti-Sandinista hardliner Volio, who resigned in November. The appointment of Gutierrez--one of Volio's closest allies in the cabinet--should reassure Monge's conservative backers that the resignation does not portend a relaxation of San Jose's tough stance toward Managua. Nevertheless, while Gutierrez has been a firm negotiator with the Sandinistas and a worthy stand-in for Volio in the Contadora

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process, he probably will be less aggressive than Volio in his public posture toward Nicaragua. [REDACTED]

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### Economic

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The administration has proposed additional tax increases and spending cuts in an effort to meet IMF austerity demands, but an agreement with the Fund probably cannot be signed before the end of January. As a result, Costa Rica's rescheduling agreement with its private creditors is likely to be nullified, thereby requiring another round of debt negotiations with commercial banks. Monge almost certainly realizes that his tough tax and spending proposals are likely to provoke stiff legislative opposition. In an effort to transfer responsibility for the austerity measures to the IMF, he has voiced strong complaints about the Fund's demands. His remarks have been sharply criticized by the private sector and the media as counterproductive. Indeed, despite Monge's continuing efforts to enlist congressional support, his criticisms may have contributed to the legislature's failure to repeal a tax in accordance with IMF preconditions for a new agreement. [REDACTED]

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**PANAMA**

**Political**

Defense Forces Commander Noriega apparently has determined that World Bank official Nicolas Barletta will be the government's presidential candidate in 1984. [REDACTED]

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[REDACTED] Barletta was selected in part because of his ties to the international banking community, which the military believes will help Panama obtain financial assistance. Nevertheless, opposition to Barletta has surfaced among Liberal, Republican, and Labor Party leaders, some of whom fear that he will be unable to defeat longtime opposition figure Arnulfo Arias. [REDACTED]

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In other electoral developments, former military chief Paredes returned to the campaign scene in December by declaring a joint presidential ticket with the rightist Popular Nationalist Party. Paredes presumably will be the party's choice for president, but his renewed candidacy probably will elicit little support following the military's announcement that it will not endorse the now retired Paredes. [REDACTED]

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**Economic**

The government has announced a \$2.6 billion budget for 1984, an increase of \$54 million over last year. In the first public disclosure of budget data for the military, Panama's Defense Forces will receive \$88 million in 1984. The military's allocation does not include several million dollars that we suspect originate from a variety of sources, including legitimate commercial enterprises owned or controlled by the military. [REDACTED]

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**REGIONAL PEACE NEGOTIATIONS**

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As the Contadora negotiations approached their first anniversary, the four sponsoring nations apparently felt increased pressure to produce tangible results. At their

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[REDACTED] 25X1

December meeting in Panama, the Contadora foreign ministers drafted guidelines for implementing the 21 point "Document of Objectives" agreed to by the Central Americans last fall. [REDACTED]

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Although the guidelines did not put forward a multilateral treaty draft or endorse Nicaragua's idea of bilateral treaties, the emphasis on security issues and the vague treatment of democracy and verification issues mirrored Nicaragua's approach. The other Central Americans--the "Core Four"--were increasingly concerned that the mediators were taking a position that was unacceptable to them and would therefore put the Core Four at a disadvantage in the talks. [REDACTED]

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Most of the Contadora guidelines were accepted by the Central Americans at the 7-8 January joint meeting of foreign ministers in Panama. Nevertheless, the Core Four successfully resisted the Contadora suggestion of declaring an immediate moratorium on the acquisition of arms, a provision which they feared would permanently tilt the military balance against them. The nine nations agreed to form working committees on military, political, and economic issues. The committees will report by 30 April on their progress, including measures to inventory arms and enumerate foreign military advisers. [REDACTED]

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